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# Grade D+

## What everyone should know!

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CHEP 595 DH (6/80)



# WHAT IS CREDIT?



# WHAT IS CREDIT?

Credit is so common today that almost everyone uses it in some form. Have you ever borrowed money from a friend or neighbor? Do you use electricity? Do you have a telephone?

If you said "yes" to any of these questions, you have used credit. You probably have spent money you borrowed from a friend and paid it back later. You use electricity or a telephone in your home **before** you pay the company for its use. These are all examples of credit.

**Credit is a service that allows you to use and enjoy the things you need or want today by promising to pay for them later.**

Credit is offered by stores and other businesses. It gives customers the privilege to "buy now — pay later." Businesses may say you can "charge it," "finance it," "buy on time" or "use a payment plan." It is all credit.

No matter what it is called, it is important for everyone to understand what it means to use credit.



Credit is a promise.

# Credit Is a Promise

When you use credit, you promise that you will use future income to pay for goods, services or money that you have the use of now. You are responsible for having the money to pay when you should. But you make other promises, too, when you use credit.

When using credit, you have these responsibilities:

- To pay back the amount of money you borrow or the cost of what you are buying, **plus** an additional charge for the use of the money or for the time you take to repay. (Sometimes, if you repay all of what you owe within 30 days you may not have to pay any additional charges.)
- To pay all of the money you owe, regardless of personal crises or unexpected situations.
- To make your payments on time. If you are late with a payment, you may be asked to pay all the money you owe immediately.
- To not sell items you are buying until **all** payments are made. You can use the item, but it still belongs to the seller.
- To give back what you are buying if you cannot finish paying for it. You will lose the money you have already paid. You may even have to pay **more** money if the creditor is not able to sell the item for the amount you still owe on it.
- To be responsible for any damage done to what you have bought on credit if you must return it.

Before using credit, you should be sure you can meet these responsibilities.

# Credit Is a Temptation

Credit lenders know that credit is convenient and easy to use. They know it is hard to save enough cash to buy the things you want. They also know that credit customers may buy more than they should. The lenders of credit know these things — that is why they offer credit!

Because credit is so easy to use, it is easy to forget that credit should be used in a responsible way. Knowing what credit is **not** will help you to use credit wisely.



Credit is a temptation.

## Credit Is Not . . .

- **Increased Income.** Credit simply allows you to spend tomorrow's income today.
- **A Way To Buy What You Cannot Afford.** Credit payments will be subtracted from your future income, so you should think of them as part of your total spending plan.
- **Unlimited.** The amount of credit granted to you depends on your credit rating — your history of paying monthly bills and other personal information.
- **The Lender's Responsibility.** Stores may offer you more credit than you can afford to repay. It is **your** responsibility to decide when to use credit and how much you can afford.
- **Free.** Credit is a service and you must pay for it. When you pay for something over a long period of time, there is a charge for using credit. Also, stores that offer credit may have higher prices than stores which only accept cash.
- **A Game.** You must sign a credit agreement, a contract or another legal paper to be able to use credit. Credit is serious business!

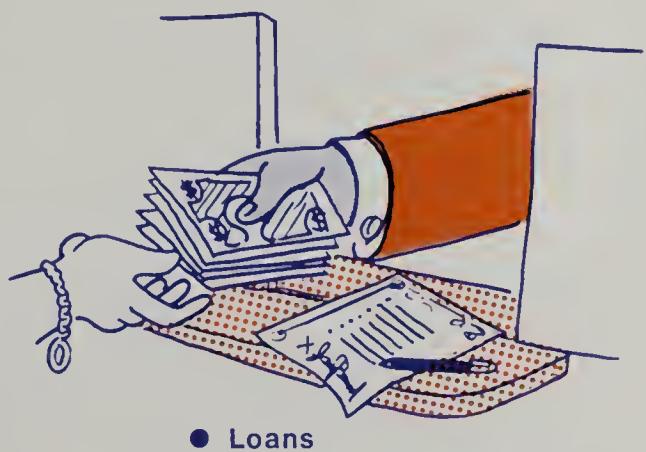
The use of credit can help you have the things you need or want. But it takes careful planning and should be used responsibly. If you remember what it means to use credit, you may be ready to make credit work for you!

Now that you know what it means to use credit, you should know the different ways you can use credit.

The four kinds of credit are:



● Service credit



● Loans



● Installment credit



● Credit cards



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# THINKING ABOUT CREDIT

Make a list of the kinds of credit you have used before (don't forget utilities). Think about each time you used credit. Did you plan carefully and use credit responsibly?

I have used these kinds of credit:

- 1.
- 2.
- 3.
- 4.

Next, think about two or three items you need to buy that you want to use credit for. What kind of credit would you like to use? Write these things in the space below.

I need to use credit to buy:

- 1.
- 2.
- 3.

Type of credit I would like to use:

- 1.
- 2.
- 3.



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# DECIDING WHEN TO USE CREDIT



# DECIDING WHEN TO USE CREDIT

The decision to use credit is a personal one. Each person or family is different. Families have different amounts of money, as well as different wants, needs, resources and skills. No two families will spend their money in the same way! That is why individuals or families must decide for themselves if they will use credit, when to use credit and how much credit to use.

To decide if you should use credit, it is helpful to know the good points about using credit and the bad points. Here are some of the advantages of using credit:

## Advantages of Using Credit

### Loss of Income

- Using credit may help you make it through times when your income is not regular or is stopped for awhile.

### Immediate Needs

- Using credit means you can use the item while you pay for it. Sometimes the need for an item is urgent and credit helps you to have it now.

### Credit Rating

- If you use credit and make your payments on time, it gives you a good credit rating. This is important because a good credit rating makes it easier for you to get a loan or other credit when you need it.

### Sales

- Using credit, you may buy something while it is “on sale” even though you can’t pay for it right then. For example, buying a winter coat on credit at the end of winter when the price is 40 percent off may be cheaper than paying cash for one at the regular price. If you were going to buy it anyway and if you won’t have to pay a “finance charge,” you have saved some money!

### Savings

- Using credit can help you to save money. For example, a family who spends \$10 per week at the laundromat might be wise to pay \$10 per week in installment payments to buy a washing machine on credit. This will save the family money after the washing machine is paid for.

# Disadvantages of Using Credit

Using credit also has some disadvantages. If you are not aware of these disadvantages and how to handle them, they can cause serious problems. A few of the disadvantages of using credit and ways to handle them wisely are:

## Credit Costs Money

Usually when you use credit, you pay for it directly. If you don't know about the cost of credit, you could be paying a lot more for credit than you need to! You can avoid doing this by learning about the cost of credit. Learn to look at the finance charge and to shop around for the lowest Annual Percentage Rate (APR). (See *Understanding Credit Costs*.)

## Credit Contracts Are Hard To Understand

Many credit agreements or contracts are full of legal words that are hard to understand. If you are not careful, you may sign a contract you do not understand — and that can be dangerous! You can avoid this situation in two ways: 1) Learn what to look for in credit contracts or agreements (see *Buying on the Installment Plan*) and 2) Take a copy of any such paper, **before** you sign it, to a banker, counselor, lawyer, legal aid adviser or other person you can trust and ask them to explain anything you do not understand.

## Credit May Restrict Where You Buy

You may buy only at places where you have or can get credit. You may be paying higher prices because you do not shop around to compare prices. To avoid doing this, do not automatically buy where you have credit, but call or go to several stores to find the best price. Learn about the sources of credit and do not be afraid to apply for credit at new places.

## Using Credit Ties Up Future Income

If you use credit, it means that some of tomorrow's income has already been spent. In fact, it is possible to spend all of tomorrow's income before you get it. If you plan carefully before you buy anything on credit you can avoid this situation. If you have already committed too much of your income to credit payments, learn where to get help. (See *Handling Credit Problems*.)

# Before Using Credit — Think It Over

When you use credit, you promise to use future income to pay for the goods, services or money that you get now. You are making promises about the future. Because the future cannot be known, try to plan ahead. Think about the things that could happen. Before you decide to use credit, ask yourself these questions:

## The Cost:

- Is it worth the extra cost to buy on credit?
- Is this something I really need?
- Is this something I have carefully planned for?
- Does the total cost of this fit my budget or money plan?
- Can I make the payments?
- Have I tried to be exact in estimating my other expenses?

## The Risk:

- What if I get sick or have an accident? Could I still pay?
- Is it worth losing the money I have paid if I miss a payment or cannot finish paying for the item?
- Do I want to risk repossession, a bad credit history or legal action if I can't pay for all of it?

## The Obligation:

- Can I afford to tie up my future income?
- Am I borrowing from a fair and honest person?
- Do I understand what the contract says?
- Will I still want to be paying for this item for the length of the contract?
- Would it be wiser to save my money and buy this later?

The answers you have for these questions may help you decide if you should use credit.

# It's Your Decision!

The ideas here can help you make your decisions about using credit. There will be times when you will decide not to use credit and times when you will decide to use it. If you manage your credit dollars wisely, credit can serve you and help to make your life more pleasant. But, like fire, if it is used unwisely, it can be damaging.

Remember, when to use credit is your decision. Make it wisely!



Credit can serve you and help to make your life more pleasant. But like fire, if it is used unwisely, it can be damaging.



CHEP 578 DH (6/80)

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Sheet 4

# WHEN YOU APPLY FOR CREDIT



# WHEN YOU APPLY FOR CREDIT

Before you apply for credit, it is helpful to know how lenders decide whether or not to give credit.

Lenders have certain laws they must obey. The Equal Credit Opportunity Act is one. It says that a lender **must** be fair. **The law says that a consumer cannot be denied credit because of age, sex, marital status, race, color or religion.** Also, credit cannot be denied because a person is a welfare recipient (such as receiving Aid to Families with Dependent Children) or a Social Security recipient or because all or part of the person's income is alimony.

This means that a creditor may not use any of these reasons to:

- discourage you from applying for a loan or credit,
- refuse you credit if you otherwise qualify, or
- lend you credit on different terms from other persons with similar income, expenses, credit history and collateral.

It also means that you may not be denied credit just because you are married, single, widowed, divorced or separated.

But the law does **not** guarantee that you will get credit. You must show the creditor that you are able and willing to repay.



Creditors are interested in your ability to repay.

# What Creditors Look For

Creditors are interested in your ability to repay, your willingness to repay and security to protect the loan.

**Ability to Repay** is summed up in this question: "Are you financially able to repay the debt?" Creditors will want to know about your employment: What is your job? How long have you worked and how much do you earn? They usually will want to know your expenses; for example, how many people do you support and how much rent do you pay?

**Willingness to Repay** is judged by how reliable you have been in paying other debts. Creditors will look at your credit history or credit rating. This is the record of other times you have used credit. They may also look for signs of stability; for example, how long you have lived at your present address.

**Security (or Collateral)** is something the borrower owns that guarantees his promise to pay the debt. The lender may ask if you own things that are worth more than the amount of money you want to borrow. This might include a car, a savings account or other items of value.

Creditors use this type of information to decide if they are going to give credit. What information is used may be different for each creditor.

In making their decision, creditors not only use different information, but different creditors have different guidelines for deciding when to grant credit. With the same information, one lender might decide to give credit while another might refuse. Apply to several reputable creditors. If one source of credit turns you down, go to another. Each individual creditor may have different lending policies.

# What If You Are Denied Credit?

When you apply for credit, the lender is required by law to notify you in writing within 30 days after you complete the application if your credit or loan has been denied. If the notice you receive does not tell you **why** you were denied credit, **find out why**. Ask the lender to explain it to you. There may be something you can do to change your credit worthiness. For example, you may be able to apply for — and get — a smaller amount of money.

If you have been denied credit, write to the credit bureau mentioned in the letter you receive and ask to see a copy of the information in their files about you. Ask to have any errors corrected or give them a statement telling your side of the story to put in the file.

If the creditor refused to tell you why you were denied credit or you believe you have been discriminated against, ask to speak to the person in charge about your problem. If you still do not get a satisfactory explanation of why your credit was denied, find out where you can make a formal complaint.

WHAT SEEMS TO BE  
THE PROBLEM  
**MR. JONES?**



Ask to have any errors in your file corrected.

**When you apply for credit, you have an equal opportunity to get credit. You also have the responsibility of proving to the lenders that you are a good credit risk!**

NAME OF APPLICANT FIRST MIDDLE INITIAL LAST										FOR OFFICE USE ONLY			
PLEASE PRINT (preferably with DARK INK)													
OPTIONAL MR. MRS. MS. MR. & MRS.										DATE OF BIRTH		SOCIAL SECURITY NO	
ADDRESS		APT. NO		CITY		STATE		ZIP CODE		NO YRS			
MONTHLY PAYMENT \$		<input type="checkbox"/> RENT <input checked="" type="checkbox"/> LIVE WITH PARENTS <input type="checkbox"/> OWN OTHER		AREA CODE ( )		HOME TELEPHONE		NO. OF DEP CHILDREN					
PREVIOUS ADDRESS		APT. NO		CITY		STATE		ZIP CODE		NO YRS			
PRESENT EMPLOYER		ADDRESS		CITY		STATE		ZIP CODE					
POSITION/RANK		BUSINESS PHONE		ANNUAL SALARY \$ OR COMMISSIONS				YRS WITH FIRM					
OTHER SOURCE OF INCOME (Alimony, child support or separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repaying this obligation) SOURCE ANNUAL AMOUNT \$													
PREVIOUS EMPLOYER		ADDRESS		CITY		STATE		POSITION RANK		YRS WITH FIRM			
NAME, ADDRESS OF NEAREST RELATIVE NOT LIVING WITH APPLICANT		ADDRESS		CITY		STATE		PHONE					
COMPLETE IF JOINT ACCOUNT IS DESIRED		JOINT APPLICANT'S FULL NAME						DATE OF BIRTH					
NAME AND ADDRESS OF JOINT APPLICANT'S PRESENT EMPLOYER								SOCIAL SECURITY NO.					
ANNUAL SALARY \$ OR COMMISSIONS \$		BUSINESS PHONE:		POSITION/RANK				NO. OF YEARS					
FOR ALL CREDIT CARDS REQUESTED PLEASE LIST CREDIT REFERENCES (CREDIT CARDS, DEPARTMENT STORES, FINANCE COMPANIES—OPEN OR CLOSED) YOU MUST LIST THE MINIMUM NUMBER AND TYPE OF REFERENCES WHEN SPECIFIED UNDER EACH CARD REQUESTED													
NAME		ADDRESS		ACCT. NO. MUST APPEAR									
BANK REFERENCES CHECKING				ACCT. NO.									
SAVINGS													
LOANS													
OTHER NAMES UNDER WHICH YOUR CREDIT HISTORY CAN BE OBTAINED													
<input type="checkbox"/> INDIVIDUAL ACCOUNT <input type="checkbox"/> JOINT ACCOUNT (When available)		AUTHORIZED USER (when available)		Name of other person who will have use of this account.						Relationship			
I certify that the information in this credit card application is correct. I authorize you or your designee (any person you choose) to investigate the references and other information furnished by me, or by any other person pertaining to my credit responsibilities, obtain a consumer credit report when necessary in order to obtain additional information in connection with this application or for subsequent update, renewal, or extension of the credit requested by this application, and advise me upon my request whether a consumer report was requested and the name and address of such consumer reporting agency, and to notify me regarding other products or services available. If this application is accepted and credit cards are issued, my acceptance of the cards indicates that I agree to pay all charges incurred and I further agree to the terms and conditions accompanying the cards. Please process the application for the cards I have designated where I have initialed the appropriate spaces.													
NOTE BOTH SIGNATURES ARE REQUIRED FOR A JOINT ACCOUNT													
APPLICANT'S SIGNATURE		DATE		JOINT APPLICANT'S SIGNATURE						RELATIONSHIP TO APPLICANT			

## Sample Application



CHEP 579 DH (6/80)

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# How To Establish A Credit Rating

If you have applied for credit before, you may agree that it seems that you must **have** credit to **get** credit. Few creditors will only look at your income or other financial information that you put on the application. Most creditors also want to know about your experience in handling credit — how reliable you have been in repaying other debts. To find this, they go to the records kept by credit bureaus.

Credit bureaus and credit-reporting agencies are in business to collect and store information about people's financial dealings. Many credit lenders send information to credit bureaus, including information on the amount of credit you received and how faithfully you have paid it back. The information in your file determines your credit rating. And most lenders want to see your credit records **before** they give you credit!

If you want to establish a credit record or credit rating, there are several things you can do.

1. **Begin by finding out what information is in your files now.** Look in the Yellow Pages of your phone book for the names and addresses of **credit bureaus** in your area. Write to them or go to their office and ask to see the information in their files about you. You may have to pay a small fee.

If there are mistakes or errors about you, ask the credit bureau to correct them. If you disagree with what is there and cannot get it changed, you are entitled to put a statement in your file telling your side of the story.

2. **Open a checking or savings account.** These do not go on your credit record, but they are an important step toward getting credit. A creditor may check to see if you have one of these as evidence that you have some money and know how to manage it.
3. **Apply for a department store credit card.** (Most are easier to qualify for than bank credit cards.) Making credit card payments on time is good for your credit record.
4. **Apply for a small loan and repay it early or on time.** This helps your credit record and will establish your credit with a lender.
5. **If you are turned down by one lender, try another.** Each lending agency has its own lending policies. One with a different policy may be able to give you the credit or loan you need.
6. **Apply for different kinds of loans.** One lender may have different requirements for auto loans, household appliance loans, personal loans and so on.
7. **Reapply after time has passed.** A lender may change their lending policies or have more money to lend and be able to lend to more people. Also, **your** qualifications may change. For example, your income may increase, the length of time you have had your job may increase or the time you have lived at your present address may be longer. In time, you may qualify for the loan or credit.
8. **Be sure to list all your financial obligations on the application.** The creditor will check your application against your credit record and will know if you leave something out. This may hurt your chances for getting the credit you want.

# Women and Credit

Women may have an especially hard time in establishing credit records. A wife may have no credit history because many records may have been kept only in her husband's name. There are other things a woman can do to be sure that she is establishing a credit history or credit record:

- Use your legal name on your own accounts. "Mrs. John Smith" is a social title only and could be held by several women. Your legal name includes your first name.
- Open new credit accounts in your legal name, if possible.
- Write to any present creditors and ask that joint accounts be reported in both husband's and wife's names.

## Protect Your Credit Rating!

- Keep your promise to pay on time.
- Use only the amount of credit you can afford.
- Notify your creditors if you cannot pay on time. Explain why. Maybe another agreement to repay can be arranged.

You make your own credit history. It begins the first time you use credit and continues all through your life.

Build and protect a good credit rating!

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# UNDERSTANDING CREDIT COSTS



# UNDERSTANDING CREDIT COSTS

Using credit is promising to pay in the future for something you get now. You can use and enjoy what you are buying while you pay for it.

But credit has strings attached. When you promise to pay for something over a long period of time, you must pay a charge for the use of someone else's money. This is called INTEREST. There may be other costs of using credit, too.

## What To Look For

If you want to borrow money or open a credit account, you will want to know how much you will be paying for the use of credit. By remembering two terms, you can find out how much you are paying in credit costs and be able to compare the cost of credit from different lenders.

The two terms are the **Finance Charge** and the **Annual Percentage Rate**.

The **Finance Charge** is the total dollar amount you pay to use credit. It includes interest costs and other costs, such as service charges or credit-life, accident or health insurance premiums. For example, borrowing \$100 for a year might cost you \$12 in interest. If there is also a service charge of \$5, the finance charge, or cost of credit, would be \$17.

The **Annual Percentage Rate** is to credit, what price per pound or unit pricing is to food or miles per gallon is to a car. It is the percentage cost of credit for a year and it is your key to comparing costs. There are many other ways to state the cost of credit as a percentage — for example, a "discount" rate, a "periodic" rate or "add-on" rate. **But only the Annual Percentage Rate (APR) gives a way to compare credit costs on an equal basis.**

Just as hamburger at \$1 per pound is a better buy than hamburger at \$2 per pound, a lower Annual Percentage Rate gives you more for your money.

For example, if Creditor A offers you credit at an Annual Percentage Rate of 18 percent and Creditor B offers a 24 percent Annual Percentage Rate, you know that 18 percent is less than 24 percent. The cost of credit will be less from Creditor A. Compare Annual Percentage Rates to get the best buy when you use credit.

All creditors — banks, credit unions, stores, car dealers, credit card companies, finance companies — **must** state the cost of their credit in terms of the **Finance Charge** and the **Annual Percentage Rate**.

Look for these terms to know how much you will be paying to use credit.

If you don't see them, **ask** for them — in writing — on the contract. If the creditor refuses to do this, do **not** sign the agreement or contract!

## Cost of Credit

We know how to find out what credit costs are. But why are credit costs different?

**The cost of credit depends on:**

- Who you borrow from,
- Your credit rating,
- How much you borrow, and
- How long you take to repay.

## Who You Borrow from

Different creditors charge different rates for credit. Banks and credit unions may offer credit at lower costs than finance companies or stores that offer installment credit. It is a common belief that it is harder to qualify for credit at a bank or credit union. This is not always true! Different lenders have their own lending policies. It is wise to apply for credit from a lower-cost lender first. Remember to look for the finance charge and compare Annual Percentage Rates.

## Your Credit Rating

Your credit rating is your ability and willingness to repay a debt. It is measured by your record of paying bills and how prompt and reliable you were in making past credit payments.

A good credit rating, or credit history, helps you to qualify for credit and helps to get credit at a lower cost.

## How Much You Borrow

The smaller amount of money you need to borrow, the less your credit will cost.

For example, you are buying a car for \$6,000. You want two years to pay for it. The annual percentage rate is 18 percent. Compare the cost of credit between borrowing the entire \$6,000 and making a \$1,000 down payment or a \$2,000 down payment.

Down Payment	Amount Financed	Monthly Payment (rounded)	Total Finance Charge	Total Cost
\$ 0	\$6,000	\$300	\$1,189	\$7,189
\$1,000	\$5,000	\$250	\$ 991	\$6,991
\$2,000	\$4,000	\$200	\$ 793	\$6,793

As the table shows, with no down payment and borrowing the entire \$6,000, the finance charge is \$1,189. To borrow \$5,000, the finance charge is \$991. To borrow \$4,000 the cost is \$793. That is \$396 less than with no down payment.

As you can see, the bigger the down payment you can afford, the lower the finance charge will be. Also, it reduces your monthly payment.

## How Long You Take To Repay

The longer you take to repay your debt, the more you pay for credit.

For example, you are buying the same \$6,000 car at 18 percent annual percentage rate with no down payment. The cost will vary with how long you use the credit. Compare the costs for two-, three- or four-year financing.

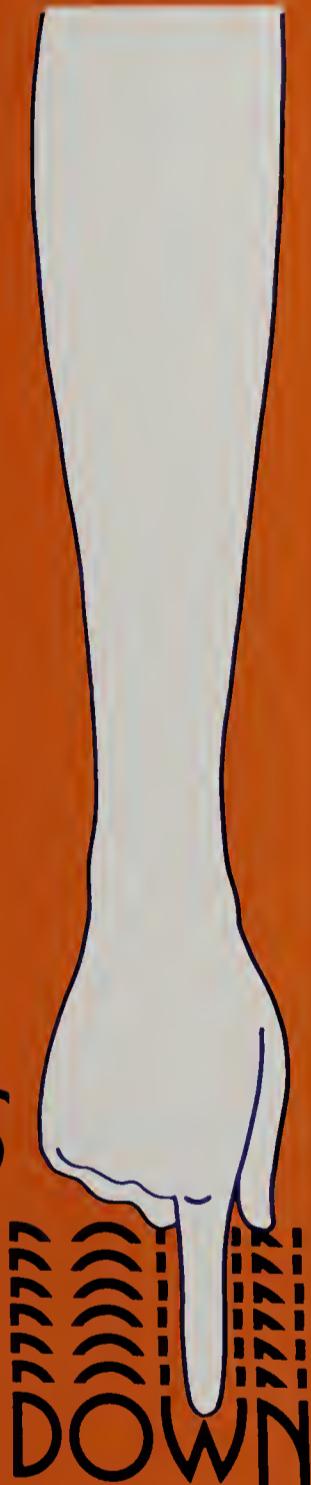
Time to Repay	Amount Financed	Monthly Payment (rounded)	Finance Charge	Total Cost
2 years	\$6,000	\$300	\$1,189	\$7,189
3 years	\$6,000	\$217	\$1,809	\$7,809
4 years	\$6,000	\$176	\$2,460	\$8,460

The total cost over two years would be \$7,189. For four years it would be \$8,460. The difference is \$1,271!

Take the shortest amount of time to repay a debt and make the highest monthly payment you can safely afford.

- LOOK FOR THE FINANCE CHARGE TO TELL YOU HOW MUCH YOU ARE PAYING FOR CREDIT.
- SHOP FOR THE LOWEST ANNUAL PERCENTAGE RATE (APR).
- BORROW THE LEAST AMOUNT POSSIBLE.
- MAKE THE LARGEST DOWN PAYMENT YOU CAN.
- PAY BACK THE LOAN AS FAST AS YOU CAN. ARRANGE FOR THE HIGHEST MONTHLY PAYMENT YOU CAN SAFELY AFFORD.
- PAY YOUR BILLS ON TIME. PROTECT YOUR CREDIT RATING.
- ONLY USE CREDIT WHEN YOU REALLY NEED IT.

## HOW TO KEEP CREDIT COSTS





CHEP 581 DH (6/80)

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AI 630 717

CHEP 582

# How To FIGURE CREDIT COSTS

Use this worksheet to figure these important items so you can compare credit costs. Look for the lowest finance charge and Annual Percentage Rate and for monthly payments you can afford.

Name of Lender:

	1. _____	2. _____	3. _____
1. Cash price of item or amount of loan:	\$_____	\$_____	\$_____
2. Down payment or trade-in allowance, if any:	\$_____	\$_____	\$_____
3. Amount financed (number 1 – number 2)	\$_____	\$_____	\$_____
4. Monthly payment	\$_____	\$_____	\$_____
5. Number of payments	_____	_____	_____
6. Total of payments or <b>Deferred Payment Price</b> : (number 4 × number 5)	\$_____	\$_____	\$_____
7. <b>Finance Charge</b> (in dollars): (number 6 – number 3)	\$_____	\$_____	\$_____
8. <b>Annual Percentage Rate</b> (given).	_____ %	_____ %	_____ %

Comments:

When shopping for credit, look for:

- Monthly payments you can afford
- The lowest APR possible
- An honest lender
- A contract you can understand



CHEP 582 DH (6/80)

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# BORROWING MONEY

LOANS

CREDIT UNION

BANK

INSURANCE CO.

FINANCE CO.

SAVINGS + LOAN

PAWN SH.

LOAN SHAK



# BORROWING MONEY

Borrowing money is called many things in the world of credit. It may be called "cash credit," "cash loans" or just a "loan." Whatever it is called, it means one thing: the borrower receives money, not merchandise.

Loans are available in amounts as little as \$10 or more than \$10,000. You can borrow money for only a few days or for several years.

Borrowing money can work in two ways. One way is to borrow the money for a certain period — 6 months or 1 year — and at the end of that time you must repay all of what you owe. The second way is to borrow the money today and repay the loan in regular installments until the amount you borrowed and the finance charge are paid in full.

## Where To Go For a Loan

If you want to buy a new refrigerator, you don't just walk into the first store you pass and buy one. You look around, decide which brand or model you want and then shop to find the dealer who gives you the best price for what you want.

When you need a loan, it should be the same, except you want to buy **money**. But you still need to decide how much you need and what it is for, then shop around to find the cheapest loan.

Here are the places you might go:

- A credit union
- A local bank
- Your life insurance company
- A finance company
- A savings and loan association
- A pawnshop
- An illegal lender or loan shark

### Credit Union

Credit unions are organized by groups of people with something in common, such as working in the same business. Loans are given only to members. To become a member, you must buy at least one share of stock which usually costs under \$10. Operating costs are low because some members work without pay for the credit union. Office space may be free. Because of the low operating costs, rates of interest for borrowers are usually low. Loan repayments often may be taken directly off the borrower's wages each month. It may take a few days to find out if you can get the loan.

## **Local Banks**

Commercial banks will make loans to people for such reasons as making home improvements or buying a car. Banks within a community may lend different amounts of money and charge different rates to different customers. This is usually a good source of credit for the family that has a good credit rating and something of value as security. The security could be a car or a life insurance policy.

## **Life Insurance Policy**

Life insurance companies lend money to policyholders if they have had a cash value life-insurance policy long enough. Policies usually tell the amount of money that the company will lend on the policy. During the time of the loan, the value of the insurance policy is lowered by the amount borrowed. The interest charged on this type of loan is usually the lowest of any lender because you are really borrowing your own money. But not everyone has this kind of life insurance to borrow on.

If the policyholder dies while still owing money on the loan, the loan is repaid from the insurance money before any insurance benefits are paid. Insurance companies may not have deadlines for paying back the loan. This may encourage the borrower to put off repayment.

## **Finance Companies**

Consumer finance companies in Illinois make loans from \$50 to \$10,000.

The interest rate charged depends on the size of the loan, but is usually higher than from banks or credit unions. In Illinois, a small loan is \$800 or less and a large loan is \$800 to \$5,000. Some consumer finance companies deal only in small loans. Others make both large and small loans. It may take only one day to get the loan.

## **Savings and Loan**

If you have a savings account at a savings and loan association, you may be able to get a low-cost loan by using your savings account as security (collateral). Check with your local savings and loan to find out other kinds of loans available.



A commercial bank is a good source of credit for the family that has a good credit rating and something of value as security.

## Pawnshops

When you borrow money from a pawnshop, you must leave something valuable, such as a watch or a TV, with the pawnbroker. A pawnshop rarely gives you more than 50 percent of the value of your property.

High interest rates are charged on the loan. If the loan is not repaid by the time you agreed to pay it, the pawnbroker can sell what the borrower left as security. To pawn items may be one of the most expensive ways to borrow money.

## Loan Sharks

People who are in desperate need may consider borrowing money from illegal lenders or "loan sharks." Their finance charges are higher than those of any other source of credit, and the borrower who misses a payment may be in serious trouble. For your own protection, avoid borrowing money from a loan shark. They are illegal and may use threats or violence to make you pay.

# Secured or Unsecured Loans

All loans are either secured or unsecured. The difference between the two is explained below:

**Secured loan** — A secured loan requires two things from the borrower:

1. The borrower's written promise to repay.
2. The pledge of security that may be either **collateral** or a **cosigner**.

Collateral is something you own, such as a car, household furniture, expensive jewelry or other personal property. Or it may be the item you are buying with the loan. Security could also be a **cosigner** who signs the loan agreement and promises to repay the loan if the borrower does not. The lender can repossess the collateral (property) or force the cosigner to pay the loan.

A lender will demand security for a very large loan or if the borrower's credit history is weak. However, the borrower's ability and willingness to repay are still the main factors a lender uses to decide whether a loan should be granted.

**Unsecured loan** — The borrower's promise to repay is the lender's only "security" behind an unsecured loan. No collateral or cosigner is required. Unsecured loans are typical if the amount of the loan is small or the borrower's credit record is top-grade and well-established.

**When shopping for a loan, compare several lenders.**  
**Look for:**

- **Monthly payments you can afford**
- **A low Annual Percentage Rate (APR)**
- **An honest lender**
- **A contract you can understand**



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# SHOP FOR YOUR LOAN

Use this sheet to write down these important numbers from three (or more) different lenders. Look for the lowest finance charge and Annual Percentage Rate and for monthly payments you can afford.

Name of Lender:	1. _____	2. _____	3. _____
1. Amount of loan	\$_____	\$_____	\$_____
2. Monthly payment	\$_____	\$_____	\$_____
3. Number of payments	_____	_____	_____
4. Total of payments (number 2 × number 3)	\$_____	\$_____	\$_____
5. Finance Charge (in dollars)	\$_____	\$_____	\$_____
6. Annual Percentage Rate	_____ %	_____ %	_____ %

## When shopping for credit, look for:

- Monthly payments you can afford
- The lowest APR possible
- An honest lender
- A contract you can understand



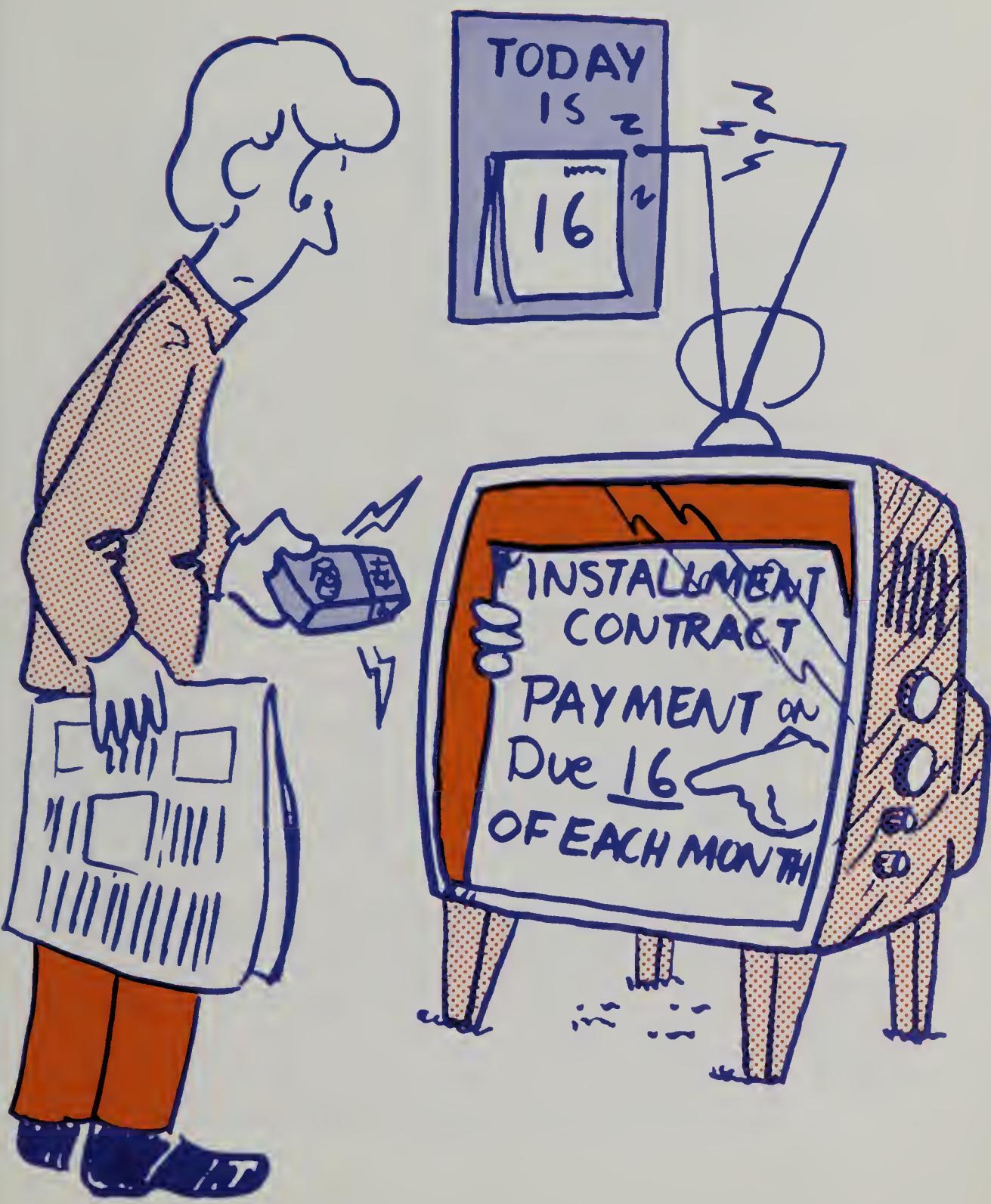
CHEP 584 DH (6/80)

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EP-535  
Sheet (D)  
C. 3

# BUYING ON THE INSTALLMENT PLAN



# BUYING ON THE INSTALLMENT PLAN

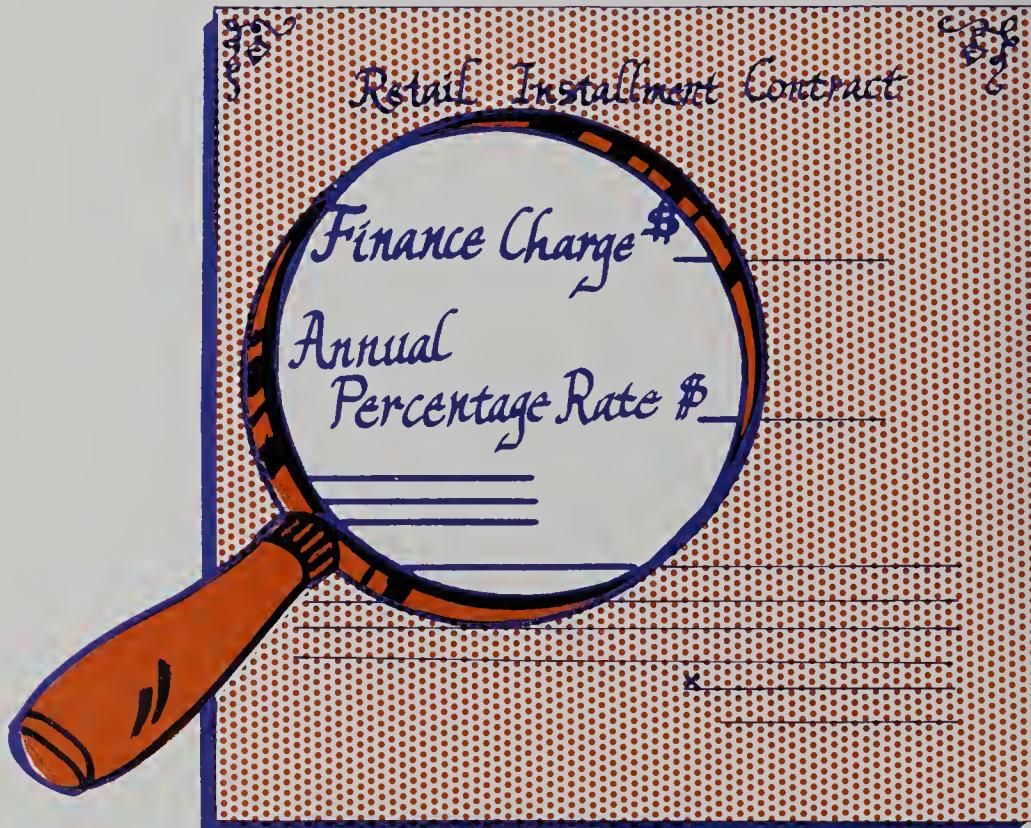
Installment credit may be called "buying on time," "financing through the store," "easy payment plan" or other names. No matter what it is called, it means the borrower receives merchandise in exchange for a promise to repay later. Items commonly bought on installment plans are cars, major appliances, televisions or furniture.

The use of installment credit requires that you sign a **contract**. Under the terms of the contract, you usually make a **down payment** and agree to pay the balance with a specified number of equal payments. These equal payments are called **installments**. Finance charges are included in these payments.

## Advantages of Installment Buying

There are many advantages of using installment credit. It is usually easy to get.

If you make payments when they are due, installment credit can help you build a good credit history.



# Disadvantages of Installment Buying

There are also some disadvantages to installment buying.

- The Annual Percentage Rate (APR) may be higher than with other kinds of credit.
- Some stores or businesses may allow you a long time to pay (such as four to five years or more). This way the dollar cost of credit, the **finance charge**, may be **more** than the original price of the item.
- With installment credit, you do not own what you are buying until the last payment has been made. This means the store still owns the item while you are using and paying for it.
- Because the store owns the item, the store can repossess the merchandise if you do not make all the payments.
- Even after the item has been repossessed, you may still be responsible for the rest of the payments.
- If you do not make the payments, the seller may be able to take the money you owe by **garnishing your wages**. This means that by a court order, the seller may arrange to have the money you owe taken from your paycheck.
- If a payment is missed or late, the store can usually demand you to pay the entire amount you owe **immediately**.
- The contract may have legal terms that you do not understand. You may give up some of your rights by signing a contract that you do not understand.

# The Installment Contract — What To Look for

Any contract providing for installment payments and having a finance charge is a **retail installment contract**. The words **retail installment contract** mean you are buying on the installment plan and that you agree to pay the installments as the contract says.

Look for these items when you read the contract:

## **Amount Financed**

This is the cash price minus your down payment and/or trade-in allowance. This may be called the **unpaid balance**.

## **Finance Charge**

This is the cost of credit in dollars.

## **Deferred Payment Price**

This is the total amount to be paid. It is the cash price, plus the finance charge, plus any other charges not included in the finance charge.

## **Annual Percentage Rate (APR)**

This is the yearly cost of credit expressed as a percentage.

These items will look something like this on the contract:

- |                          |          |
|--------------------------|----------|
| ● Amount financed        | \$ _____ |
| ● FINANCE CHARGE         | \$ _____ |
| ● Deferred Payment Price | \$ _____ |
| ● ANNUAL PERCENTAGE RATE | _____ %  |

By Illinois law, any retail installment contract should list these items on it. **If you do not see these terms or do not fully understand the contract, do not sign it!**

The contract should also include these items:

## **Repayment Schedule**

This is the amount of each payment as well as how many are to be made and when they are due.

## **Late Payment Penalty**

This is the penalty for late payments.

## **Insurance Agreements**

Credit-life, accident or disability insurance provide for payment of the contract if you die, have an accident or are disabled.

## **Security**

This is something you own that guarantees your promise to pay. In contracts, the term often used is **security interest**. Usually, the item you are buying is the security for the contract.



## Before You Sign . . .

Always follow these guidelines before signing any contract.

- Deal only with an honest, fair business.
- Do not believe what someone promises, unless it is written in the contract. Ask for these promises to be put on the contract. If the salesperson cannot or will not put them in the contract, do not sign it!
- Do not sign a contract until all blank spaces are filled in. Get a copy of what you sign. By law, you are entitled to it. Be sure your copy is just like the seller's.
- Be suspicious if the salesperson says you must sign **now**.
- Keep your copy in a safe place. You may need it for legal reasons later.
- If you cannot make your payment for any reason, talk it over with the seller. You may be able to agree on a new payment plan.

## A Contract Is Legal

A credit contract can be enforced in courts of law. You are responsible for whatever you sign — do not let a fast-talking salesperson tell you otherwise. **Your signature is your most valuable possession — use it wisely!**



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MI 630,717  
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e 3

# SEVEN STEPS TO USING INSTALLMENT CREDIT

1. **Decide on which brand or model of the item you want to buy.** Be sure to look for one that will meet your needs. Check out the warranty.

2. **Find area dealers that carry this brand or model.** You may want to check the Yellow Pages for this information.

3. **Compare prices and credit agreements.** Be sure to compare:

- Annual Percentage Rates (APR)
- finance charges
- deferred payment prices
- monthly payment amounts
- your ownership rights
- the security you must pledge

4. **Decide if you could get better terms by getting a loan from a local bank, credit union, savings and loan or finance company.** Do this by calling a few places and asking their Annual Percentage Rates on loans in the amount you need.

5. **If you plan an installment purchase through the store, find out:**

- What happens if you are late with a payment?
- What happens if you miss a payment?
- What property of yours do they have to have for "security"?

6. **Be sure you are dealing with a fair, honest business with a good reputation.** You may find this out by calling the Better Business Bureau in your area or the Illinois Attorney General's Office, Consumer Protection Division. This is especially important for door-to-door sales.

7. **Read the contract carefully.** If there is anything you do not understand, ask the salesperson to let you take a copy of the contract before you sign it. Take it to someone who will know what it means — a lawyer, the Legal Aid Society, a credit counseling office or a bank.

## Installment Buying Tips

Beware of retailers who make it too easy to obtain credit. Be cautious when stores advertise a credit policy of "no money down," "E-Z credit," or "instant credit — only your signature required."

These claims make you think the store is willing to take greater risks.

The store may **not** be taking a greater risk because:

- the price may be two or three times higher than the cost of the same item somewhere else,
- the quality of the merchandise may be poor,
- the interest costs may be high,
- the retailer may have the right of repossession or wage garnishment.



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MI 630.717  
HEP-587  
Sheet 12  
C.3

# USING CREDIT CARDS



# USING CREDIT CARDS

A popular form of credit used today is the credit card or charge account offered by many retail stores, banks and other businesses. Gasoline credit cards allow you to charge gas or repair work at a company's gas station. Department stores have their own charge accounts that allow you to make purchases at any of their stores. Many credit-card companies allow you to charge goods and services at any business that will honor the card.

Using credit cards is easy and convenient. If you know how to use them wisely, they can be an important source of credit for you.

## How Credit Cards Work

Every store or company that offers a credit card or charge account may have its own rules and regulations about credit. Always find out what the policies of each business are.

**Here is how to get and use a credit card.**

- Fill out an application and send it to the company. If you qualify for their credit card, you will receive the card and the instructions about how to use it. There may be a yearly fee for the use of the card. You will also be told how much you can charge — this is your **credit limit**.
- To make a purchase present your “charge card” or “credit card” instead of cash and take the merchandise home.
- If you use the credit card, you will get a statement showing all your purchases made during the month. Usually, there is no charge for the card if you don't use it.
- When you get the statement or “bill” showing what you owe, you usually have a choice:
  - You can pay the entire bill by the due date noted on the statement and avoid paying any finance charge. If you do this, the use of credit will not cost you anything. (Some credit cards may require this complete payment.)  
*or*
  - You can pay only part of the bill. The minimum amount you can pay each month will be shown on the statement. If you do not pay the entire bill, the company adds a **finance charge** on to what you still owe. The finance charge is usually 1.5 percent per month or an 18 percent **Annual Percentage Rate (APR)**. This is called **revolving credit**.

- With a revolving-credit account, the minimum amount you can pay each month depends on the **credit agreement** you sign when you open the account. Be sure you understand what the credit agreement says before you sign it. (See *How to Read a Credit Agreement*)
- Using revolving credit, you can continue to make purchases while you are paying off previous charges, as long as you do not exceed the maximum amount of your **credit limit**.

When applying for a charge account or credit card, check with the business to find out what its charge-account policies are.

## Be Sure You Know

- Your credit limit**
- When the bill must be paid**
- How to avoid paying finance charges**
- How to figure out your minimum payment**
- When finance charges start**

Credit cards have a number of **advantages**. By using credit cards, a person does not have to carry large amounts of cash.

Credit cards are an excellent source of identification. This can help when cashing checks.

Credit cards can also let you take advantage of a sale or make other needed purchases even though you do not have the ready cash. This can save many dollars or help to "make it" until payday.

But there are also **disadvantages** of using credit cards.

Instead of shopping to compare prices, you may pay more for something because a particular store or business allows you to charge. If you don't pay the entire balance by the due date you will have to pay finance charges on what you still owe.

Another disadvantage is that you may either lose or have your credit card stolen. You should keep a personal record of all your credit cards and the account numbers in a safe place.

A major problem with credit cards is that it is easy to overspend without knowing it. You may find that you bought more than you can afford to repay. Remember, always be in control of your credit cards!

# Lost or Stolen Credit Cards

If you lose a credit card, notify the company at once, first by telephone and then in writing. The company will stop payments on the old card and issue you a new one. Once you notify the company that the credit card was lost, stolen or used illegally, you are no longer responsible for anyone's use of the card. If you do not notify the company, you may have to pay up to \$50 per credit card for anyone's illegal use of the card.

Keep a record of your credit cards in a safe place where you can easily get it when needed. Include the name, address and telephone number of each company and your credit card number.



Keep a record of your credit cards in a safe place.



With a credit card, you make a purchase and take the merchandise home, but you don't have to pay for the items until you get the monthly bill.



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AI 630.11  
CHEP - 588  
Sheet 13  
C-3



# MY CREDIT CARDS

List each credit card you have. Keep this list in a safe place. If you lose a credit card, use this information to contact the company immediately.

Company	Address	Telephone	Account Number



# How To Read A Credit Agreement

## CREDIT AGREEMENT

In consideration of credit extended to me, I agree to pay all purchases made on my Charge Account in accordance with the following terms:

**1-** If the "New Balance" shown on my monthly statement is paid in full within one month of the Bill Closing Date shown on that statement no **FINANCE CHARGE** will be added for the monthly period in which I make such payment.

**2-** If I do not choose to pay the "New Balance" in full, a monthly **FINANCE CHARGE** will be added to my account and I agree to make minimum monthly payments as follows:

**3** { WHEN MY BALANCE IS:

Under-\$10.00	\$ 10	\$101	\$151	\$201	\$251	\$301	\$351	\$401	\$451	Over \$500
\$10.00	\$100	\$150	\$200	\$250	\$300	\$350	\$400	\$450	\$500	

MY MINIMUM PAYMENT FOR THAT MONTH WILL BE:

New Balance	\$10	\$15	\$20	\$25	\$30	\$35	\$40	\$45	\$50	1/10 of Balance
-------------	------	------	------	------	------	------	------	------	------	-----------------

**4-** I may pay more each month than the minimum and thereby reduce the amount of the **FINANCE CHARGE**.

**5-** 3. The **FINANCE CHARGE** is determined by applying a periodic rate of 1.5% per month (**ANNUAL PERCENTAGE RATE 18%**) to the first \$500 of the Previous Balance, and 1% per month (**ANNUAL PERCENTAGE RATE 12%**) to such balance in excess of \$500. There is a minimum **FINANCE CHARGE** of 50¢. The New Balance may be paid in full at any time. To avoid **FINANCE CHARGES**, full payment of New Balance must be received by the Due Date shown.

**6-** 4. If I fail to make any payment when due, you may declare my entire balance due and payable.

**7-** 5. You are authorized to investigate my credit record and report to proper persons and Bureaus my performance of this Agreement.

**NOTICE**

**8** { Any holder of this consumer credit contract is subject to all claims and defenses which the debtor could assert against the seller of goods or services obtained pursuant hereto or with the proceeds hereof. Recovery hereunder by the debtor shall not exceed amounts paid by the debtor hereunder.

NOTICE TO BUYER

**9** { 1. DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT OR IF IT CONTAINS BLANK SPACES.  
2. YOU ARE ENTITLED TO A COPY OF THIS AGREEMENT. KEEP IT TO PROTECT YOUR LEGAL RIGHTS.  
3. YOU HAVE THE RIGHT AT ANY TIME TO PAY THE FULL AMOUNT DUE WITHOUT INCURRING ADDITIONAL FINANCE CHARGES. KEEP A COPY OF THIS AGREEMENT FOR FUTURE REFERENCE.

**10-** \_\_\_\_\_  
Customer Signature

You may want to open a charge account. Before you can use the account, you will have to sign a **credit agreement**. The agreement is a legal contract that tells you the rules you must follow when you use the account.

At the top of the page is a sample credit agreement. Read it carefully. Look for the number for each section below. It tells you more about each part of the agreement.

1. If you pay your bill in full each month, you will not have to pay any **Finance Charges** on what you buy.
2. If you do not pay the entire bill, you agree to pay a **Minimum Payment** plus a **Finance Charge**.
3. This table tells you how much your minimum payment will be if your balance (the total amount of your bill) is at different amounts. For example, if your balance is \$45, your minimum payment is \$10.
4. If you want to pay more than the minimum, you can do it. This will cut down on the finance charge you pay.

5. If your balance is \$500 or less, the finance charge is 1½ percent every month, or 18 percent a year. If you owe more than \$500, the amount above the \$500 mark has a finance charge of 1 percent a month, or 12 percent a year.
6. If you don't keep up your regular payments, the store can ask you to pay your whole bill immediately.
7. The store can ask a credit bureau about your credit record and can report to a credit bureau about you.
8. If the store were to sell your credit agreement to another company you would not give up any of your rights. You could still complain about faulty merchandise, for instance, or stop making payments on a defective item while you dispute the problem.
9. This section tells you not to sign the agreement unless you understand it and it is completely filled in. It advises you to keep a copy of the agreement for your files.
10. Here's the place where you sign. If you understand what this credit agreement means, you may sign on the line!





# How To READ A CHARGE ACCOUNT STATEMENT

**1→** Mrs. Lou M. Weber  
2110 W. Nancy Ct.  
Anyplace, U.S.A.

**2→** CLOSING DATE  
01/09/80  
**3→** ACCOUNT NUMBER  
300 89 742

**4→** AMOUNT ENCLOSED  
\$

Please Detach This Portion at Perforation and Return with Your Remittance  
Please Allow 5 Days To Assure Receipt by Due Date.

DATE	REFERENCE NUMBER	DEPT.	DESCRIPTION	PURCHASES	PAYMENTS AND CREDITS
12/15/79	290	131	FASHION ACCESSORIES	17.85	
12/18/79	1171	124	FINE JEWELRY	13.64	
12/22/79	1597	131	FASHION ACCESSORIES	9.45	
					<b>←5→</b>
<b>6</b>		<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
↓		↓	↓	↓	↓
PREVIOUS BALANCE	TOTAL PAYMENTS AND CREDITS	FINANCE CHARGE	TOTAL PURCHASES	NEW BALANCE	MINIMUM AMOUNT DUE
126.61	15.00	1.90	40.94	154.45	20.00
					DUE DATE
					02/09/79

When using a charge account, you receive a monthly statement. It tells you what you bought during the last month, and how much you owe the store or company. For a breakdown of this sample statement follow the numbers.

1. **Customer's Name and Address**
2. **Closing Date** — The closing date (also called **billing date**) tells you that this statement lists all the purchases you made last month up to this date.
3. **Account Number** — This is your identification number. Whenever you use this account, you will need to use the account number.
4. **Amount Enclosed** — You write in this space the amount of money you are paying this month. How much you pay depends on how much you owe. You often tear the top section off the bill and return it with your payment.
5. **Purchases** — This section lists everything you bought, the date purchased and the price you paid.
6. **Previous Balance** — This is the balance remaining at the beginning of the current billing period. In this example, it is \$126.61.

7. **Total Payments and Credits** — This space shows what you paid on your account last month (\$15.00). If you had returned something for "credit," the price would be added here.

8. **Finance Charge** — This is the amount charged to use credit. Here \$1.90 is the finance charge. This is  $1\frac{1}{2}$  percent of your previous balance of \$126.61.

9. **Total Purchases** — This is the total amount of money spent for the month. Last month, you bought \$40.94 in merchandise.

10. **New Balance** — The new balance is the total amount of your bill right now. The new balance on your account is \$154.45. You find the balance this way:

$$\begin{aligned} & \$126.61 \text{ previous balance} \\ & - 15.00 \text{ monthly payment} \\ & + 1.90 \text{ finance charge} \\ & + 40.94 \text{ purchases} \end{aligned}$$

$$154.45 \text{ new balance}$$

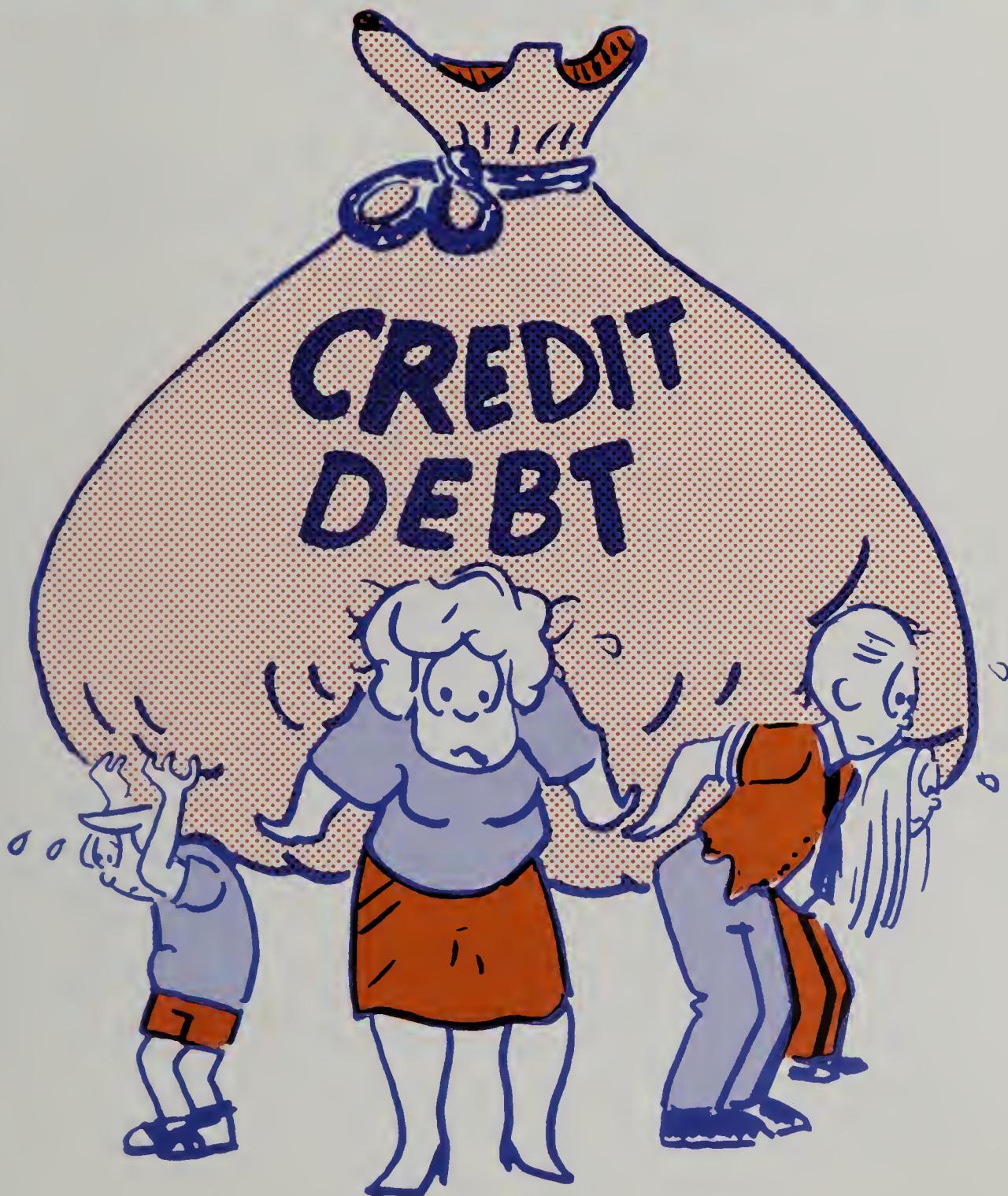
11. **Minimum Amount Due** — According to the credit agreement you signed, your minimum payment for a balance of \$154.45 is \$20.00.

12. **Due Date** — The date on which your payment is due to the company, usually 30 days after the **Closing Date**.





# HANDLING CREDIT PROBLEMS



# HANDLING CREDIT PROBLEMS

Financial problems occur when your debts and expenses become greater than your income and ability to repay.

The questions below can help you to become aware of possible credit problems. If you say "Yes" to many of these questions, you may be using too much credit.

## Early Warning Signals of Credit Problems

- Are you not sure how much you owe?
- Are you usually late in paying your bills?
- Are you working overtime just to make ends meet?
- Are you paying bills with money you need for necessities, such as food, clothing or shelter?
- Can you only make the minimum payments on your debts?
- Do past-due notices come often in the mail?
- Are you always "short of money" before payday?
- Do you put off medical or dental visits because you cannot afford them now?
- Have you been threatened with repossession or other legal action?

You can handle your money problems in many ways, depending on how serious they are. **Whatever the problem, it is important to know what to do about it and to act quickly.**

If your family's debts, bills and expenses are more than your income or other sources of money, you are not alone. Many people experience such problems at some time in their life. To help you, here are some basic steps to handling credit problems.

- Try not to use any more credit. Cut up your credit cards if you need to.
- Make a list of everything you owe each month for the next 12 months. (To do this, use the worksheet **What I Owe**.) Subtract what you owe each month from your monthly income and see if you will have enough to live on each month after making all your payments. Make a workable family budget, if you don't already have one.
- If you can't make all of your credit payments, contact each of your creditors and explain your situation. If they are sure that you intend to pay, they may be understanding. They may defer your payments for awhile or refinance the debt to reduce your monthly payments. In other cases, you might be able to return some merchandise bought on credit before repossession is necessary. **If you are not able to make your payments, the worst thing you can do is to avoid your creditors.**
- Try to find professional credit counseling or other financial counseling to help you work out your problems. There are many qualified people who could help you.



If you are not able to make your payments, the worst thing you can do is hide from your creditors.

# Where To Get Financial Help

Some creditors may be unwilling to reduce your monthly payment or to wait for them. If you have talked to your creditors and still need help, there are places you can go.

Your **bank, credit union, savings and loan or another financial business** may have a credit counselor or other person qualified to discuss your problems and give you suggestions about what you can do. These can be good sources for credit counseling, but they do represent a business. Because they work for the business, they may suggest only services that they offer. For example, they may suggest a loan from them to help you pay other creditors.

Many cities and towns have a non-profit **credit-counseling service** to help people with credit problems. The service may be free or based on your ability to pay. The agency works with the individual or family to work out a repayment plan. Advice on handling finances is available from some local welfare organizations, legal-aid societies and charitable or religious organizations.

Some finance companies or other lenders advertise "**debt-consolidation loans.**" This is a loan to pay all your other bills. You then make one lower monthly payment over a longer period of time.

This can be a way to pay all your bills, but the cost is high. The lender may charge about a 30-percent Annual Percentage Rate. If your other loans have 12, 18, or 24 percent Annual Percentage Rates, then you can be paying **more** in interest charges with a debt-consolidation loan. If you do use this kind of loan, try not to use any other credit until the loan is totally repaid.

There are also businesses that exist to give debtors help with their credit problems. They are called "**debt-consolidators," "debt-poolers" or "debt-adjusters.**" Do not confuse these **debt consolidators**, in business to make a profit, with the credit-counseling services that require little or no fee. A debt consolidator will work out a repayment schedule with your creditors, but they may charge 10, 20, or more than 30 percent of your debt as their "**service fee.**" The major disadvantage of this method is that it is usually costly.

If your financial burdens and debts cannot be handled by any of these methods, you may wish to see a lawyer or a local Legal Aid Society. They may suggest legal proceedings to help you repay your debts. One such process is called **Chapter 13**, which is a modified form of bankruptcy proceedings. A Chapter 13, which is called an "Adjustment of Debts of an Individual with Regular Income," can be filed by a consumer who is in debt but has a regular income. Consumers give the court a budget that says they will use a portion of their future income, and will sell some of their property if they want to, to repay their debts. Usually, the plan is to be paid over a period of three years.

These are some of the ways you can get help when you have used too much credit or need other financial counseling:

- Determine if you have a credit problem.
- Contact your creditors if you cannot make your payments. Try to agree on a new plan.
- Seek help from professionals if your credit problems still exist. Admitting that you need counseling may be the first step to finding a solution to your problems.



If you have talked to creditors and still need help there are places you can go.



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# WHAT I OWE...

Use this worksheet to list all the debts you owe. Include who you owe, the amount of your monthly payments, when they are due and how many payments you have left. Be sure to include any car or other installment loans, charge accounts or credit cards, educational loans and so on.

Now subtract your total monthly payments from your monthly income to see if you will have enough to live on. You should know your monthly expenses (what you need to live on) from your spending plan. If you do not have one, take time to make one. If you cannot afford to make all your monthly payments and still have enough to live on, contact your creditors or seek professional advice on what you can do.

Monthly Income (Take-Home Pay) \$ \_\_\_\_\_

Total Monthly Payments      -\$ \_\_\_\_\_

Amount Left to Live On = \$ \_\_\_\_\_





# CREDIT — WHAT EVERYONE SHOULD KNOW!

**Credit is a service that allows you to use and enjoy the things you need or want today by promising to pay for them later.**

There never seems to be enough money for all the things a person or family wants and needs. Credit can help us get the things we need or want. We can borrow money by getting a loan, we can make installment payments stretching over several years and we can say "Charge it" at local stores and other businesses.

But using credit also ties up future income. This can be a problem if we use too much credit. It takes more and more of our income to buy the items we need everyday. When we commit too much of our future income to credit, we can end up in trouble.

When we know the basics about using credit, we can use it wisely.

The first step in the wise use of credit is understanding what it means to use credit. **What Is Credit** discusses the legal and financial responsibilities of using credit. After reading this, fill out the worksheet **Thinking about Credit**. This will help you think about the times you have used credit and what kind of credit you would like to use in the future.

Each individual or family must decide for themselves if they will use credit. **Deciding When To Use Credit** discusses the advantages and disadvantages of using credit. It also poses some important questions to ask yourself before you use credit. Refer to these questions whenever you are thinking about using credit.

Once you have decided to use credit, you must apply for it. **When You Apply for Credit** discusses your rights to an equal opportunity to get credit. It discusses what creditors have a right to ask. And it tells what to do if your credit application is denied.

Because women have had special problems in obtaining credit, a worksheet titled **How To Establish a Credit Rating** gives tips on what can be done to overcome not having a credit history.

If your credit application is accepted, you will want to know how much it costs to use credit. **Understanding Credit Costs** presents, in a simple way, what to look for to understand and compare credit costs. It also explains the factors that make credit costs higher or lower. A worksheet, **How To Figure Credit Costs** gives simple directions for figuring the cost of credit.

The next three pamphlets discuss the three ways you can use credit: **Borrowing Money**, **Buying on the Installment Plan**, and **Using Credit Cards**. Each one discusses how to use that form of credit wisely and you'll find worksheets to help you with special problems in those areas.

They include:

#### **Borrowing Money**

- **Shop for Your Loan**

#### **Buying on the Installment Plan**

- **Seven Steps To Using Installment Credit**

#### **Using Credit Cards**

- **My Credit Cards**
- **How To Read a Credit Agreement**
- **How To Read a Charge Account Statement**

All of these pamphlets contain basics about using credit — things everyone should know so they can use the service wisely. But many people find they already are in trouble after using too much credit. For those people, a pamphlet on **Handling Credit Problems** is included. It presents some warning signals of credit problems and then outlines what to do about them. Sources of financial help also are presented and discussed. A worksheet on **What I Owe** helps you take a close look at how much money you have committed to credit.

After going through these materials, you may not remember everything you have read. So keep the pamphlets and refer to them whenever necessary.

By knowing all these basics about credit, you can learn to use credit to your advantage. You can get things you need or want today by promising to pay for them later — without getting in over your head.

You can make credit work for you!



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